

## Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 PA-03 PRS-01 RSR-01 AGR-20 /116 W  
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R 191447 Z MAY 73

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 7494

INFO USIA

USCINCSO

GOV PANCANAL

UNCLAS PANAMA 2728

USIA FOR ILA, IOR/ M

E. O. 11652: N/ A

TAGS: ECON, PN

SUBJ: PRICE CONTROL

REF: PANAMA A-73, APRIL 28, 1972.

SUMMARY: PANAMA PRESS MAY 18 RAN BANNER HEADLINES REPORTING GOP MEASURES TO RESTRAIN RISING COST OF LIVING, INCLUDING PRODUCTION AND PRICE INCENTIVES FOR AGRICULTURAL PRODUCTS. WHERE PRICE INCREASES NECESSARY FOR SOME ITEMS, GOP HOPES TO SPREAD " COST" AMONG PRODUCERS, CONSUMERS AND GOVERNMENT. BLAME FOR RISING PRICES PLACED ON DOLLAR DEVALUATION AND REVALUATION OF WEST EUROPEAN AND JAPANESE CURRENCEIS, AND ON POOR HARVESTS IN RUSSIA AND CHINA. GENERAL TORRIJOSSAID PRESSURE FOR WAGE INCREASES ONLY PLAYED INTO HANDS OF THOSE WHO WERE DRIVING PRICES UP ( SPECULATION) FOR BASIC NECESSITIES OR EXPLOITING INFLATION FOR THEIR OWN POLITICAL ENDS. COST OF LIVING ROSE AT AVERAGE ANNUAL RATE OF 5.5 PERCENT DURING 1972. MINISTER OF PLANNING STATED PANAMA COULD NOT INSULATE ITSELF FROM FURTHER PRICE INCREASES IN 1973 ON ORDER  
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OF 7-8 PERCENT. GOP PLANS TO BRAKE RISING FOOD PRICES  
IMPLY GOVERNMENT SUBSIDY WHICH ONLY PLACES GREATER STRAIN  
ON ALREADY TIGHT BUDGET.

1. ON MAY 18, PANAMA PRESS RAN BANNER HEADLINES REPORTING  
GOP WILL TAKE MEASURES TO CONTROL THE RISING COST OF LIVING.  
VARIOUS PRICE CONTROL ACTIONS WERE ANNOUNCED AT A COUNCIL  
OF STATE MEETING PRESIDED OVER BY GENERAL OMAR TORRIJOS  
TO WHICH THE PRESS WAS INVITED. TORRIJOS REPORTEDLY SAID  
" THE COST OF LIVING IS A PROBLEM THAT EXISTS AND ONE WHICH  
NO COUNTRY HAS BEEN ABLE TO SOLVE, NOT EVEN WITH THE WORLD' S  
BEST ECONOMISTS." HE ADDED, " THE PEOPLE ARE DISCONTENT AND  
WANT ANSWERS TO THIS INCREASE ( IN THE COST OF LIVING) AND  
WE ARE GOING TO GIVE THEM THOSE ANSWERS IN ORDER TO AVOID THE  
NOTORIOUS INCREASE ( IN THE COST OF LIVING ) THAT IS  
AFFECTING OUR PEOPLE." TORRIJOS AND SEVERAL MINISTERS  
THEN PROCEEDED TO REPORT ACTIONS BEING TAKEN WITH RESEPCT  
TO INCENTIVES AND PRICES FOR AGRICULTURAL PRODUCTION,  
ESPECIALLY RICE AND MEAT, BREAD AND GASOLINE PRICE  
INCREASES, INCREASED CEMENT PRODEUTION, MORE LOW INCOME  
HOUSING, AND STRICTER CONTROL OF RETAIL PRICES BY A  
REINFORCED OFFICE OF PRICE REGULATION.

2. DURING THE MEETING IT WAS REPORTEDLY EMPHASIZED THAT  
THE INCREASED COST OF LIVING WAS DUE TO A LARGE DEGREE  
TO FOREIGN INFLUENCES: I. E., DEVALUATION OF THE U. S.  
DOLLAR AND REVALUATION OF EUROPEAN AND JAPANESE CURRENCIES  
AND, IN THE CASE OF BREAD, SOARING WHEAT PRICES CAUSED BY BAD  
WEATHER IN RUSSIA AND CHINA. IN SEVERAL INSTANCES OF  
PRODUCTS REQUIRING PRICE INCREASES, TORRIJOS SAID INCREASES  
MUST BE ABSORBED EQUALLY BY THE CONSUMERS, PRODUCERS, AND  
GOVERNMENT. HE SINGLED OUT FOR CRITICISM THE THREE  
PRINCIPAL BAKERIES THAT HAVE CEASED PRODUCTION OF BREAD  
IN PROTEST OF THE RECENT PRICE INCREASE FOR BREAD WHICH  
THEY CONSIDER TO BE INSUFFICIENT. TORRIJOS WARNED THE  
BAKERS THAT THE GOVERNMENT WILL FIND A WAY TO MAKE THEM  
PRODUCE AND COMPLY WITH THE REQUIREMENTS OF THE OFFICE  
OF PRICE CONTROL.

3. TORRIJOS REPORTEDLY PUT PART OF THE BLAME FOR THE  
RISING COST OF LIVING ON THE INCAPACITY OF THE PEOPLE  
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TO ORGANIZE THEMSELVES AND GIAVE AS AN EXAMPLE THAT  
" THE COOPERATIVES ARE NOT BEING AFFECTED BY EXCESSIVE INCREASES  
IN THE COST OF LIVING." WITH RESPECT TO WAGES, HE SAID, " TO  
INCREASE WAGES WITHOUT CONTROLS IS TO DECEIVE THE PEOPLE.  
EXCESSIVE ASPIRATIONS FOR WAGE INCREASES ARE FAVORABLE FOR THOSE  
WHO INCREASE THE PRICES OF ARTICLES OF PRIMARY NECESSARY. IT  
IS TO PLAY THE SAME GAVE AS THOSE THAT WANT TO UTILIZE

WORLD( INFLATIONARY) PROBLEMS AND THE COST OF LIVING FOR THEIR OWN POLITICAL ENDS."

4. COMMENT: INFLATION HAS BECOME A SERIOUS PROBLEM IN PANAMA FOR THE FIRST TIME IN MANY YEARS EVEN THOUGH THE AVERAGE 5.5 PERCENT RISE IN THE CONSUMER PRICE INDEX IS NOT UNDULY LARGE BY WORLD STANDARDS. A LOOK AT THE AVERAGE INCREASE IN THE WHOLESALE PRICE INDEX FOR 1972 OF 8.6 PERCENT FORTTELS A CONTINUING RISE IN CONSUMER PRICES IN 1973. THE SECOND DOLLAR DEVALUATION WILL ALSO BE FELT IN HIGHER PRICES. MINISTER OF PLANNING AND ECONOMIC POLICY BARLETTA RECENTLY STATED AT THE ANNUAL MEETING OF PANAMANIAN BUSINESS EXECUTIVES THAT PANAMA CAN NO LONGER HOPE TO INSULATE ITSELF FROM WORLD INFLATIONARY PRESSURES AND THAT 7 TO 8 PERCENT ANNUAL RISE IN PRICES CAN BE EXPECTED DURING THE FORESEEABLE FUTURE.

INFLATIONARY PRESSURES, WHICH BEGAN BUILDING ONE AND A HALF YEARS AGO, WERE ACCOMPANIED BY EDITORIAL CRITICISM BY BOTH THE PRIVATE AND GOVERNMENT CONTROLLED NEWSPAPERS OF THE OFFICE OF PRICE CONTROL' S INABILITY TO PREVENT PRICE " SPECULATION." RESENTMENT OF THE RISING COST OF LIVING IS BEING FELT THROUGHOUT PANAMA AND THIS HAS BECOME A POLICICAL ISSUE TO WHICH THE GOP IS VERY SENSITIVE. GOP' S EFFORTS TO STEM THE TIDE OF PRICE INCREASES MAY WELL BE FRUSTRATED SINCE A LARGE PART OF THE INFLATION IS IMPORTED AND OUTSIDE OF ITS CONTROL. THE GOP HAS TRIED TO PUT OFF UNTIL THE LAST MINUTE AUTHORIZATION OF PRICE INCREASES, CAUSING SOME ECONOMIC DISRUPTIONS AND STRAINED RELATIONS WITH THE BUSINESS COMMUNITY. IT SHOULD BE NOTED THAT GOP' S EFFORTS TO BRAKE PRICE INCREASES FOR SOME FOOD ITEMS IMPLY THAT GOP WILL ABSORB COSTS OF SUBSIDY ( E. G.: ESTIMATE OF \$1.2 MILLION FOR RICE IMPORTS) PLACING STRAIN ON ALREADY TIGHT BUDGET SITUATION.

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* UNCLASSIFIED

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:**  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 19 MAY 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition Event:**  
**Disposition History:** n/a  
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**Executive Order:** n/a  
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**Office:** ACTION ARA  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 72 PANAMA 1-73  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** kelleyw0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 19 OCT 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <19-Oct-2001 by kuehnbc0>; APPROVED <25 FEB 2002 by kelleyw0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** <DBA CORRECTED> gwr 980226  
**Subject:** PRICE CONTROL  
**TAGS:** ECON, PN  
**To:** ARA  
GOV PANCANAL  
SECSTATE WASHDC  
USCINCSO  
USIA  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

